

Exhibit 19

Page 1

1

2

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

4

5

US SECURITIES AND EXCHANGE : Civil Action No:
COMMISSION : 11-Civ-9645-RJS (S.D.N.Y.)

7

Plaintiff :

8

-v-

9

ELEK STRAUB,
ANDRAS BALOGH, and
TAMAS MORVAI

10

Defendants :

12

13

DEPOSITION

14

OF

15

DR. ADAM FARKAS

16

On Tuesday, October 7th 2014

17

Commencing at 9:38 am

18

Taken at:

20

White & Case LLP
5 Old Broad Street
London
EC2N 1DW
United Kingdom

21

23

Reported by: Miss Pamela Henley

24

Job No: 84988

Page 30

1 Dr Adam Farkas
 2 that the -- that if there are any irregularities
 3 that these are discovered and spotted and dealt
 4 with.

5 And if there are no irregularities
 6 there is a robust and comprehensive control
 7 process in place with a firm to ensure that what
 8 investors get reported is a reliable, true and
 9 fair representation of what the company is
 10 actually doing.

11 Q. Did you understand whether the
 12 Sarbanes-Oxley Act was an American law?

13 A. Yes.

14 Q. And was Magyar Telekom subject to
 15 the Sarbanes-Oxley Act?

16 A. Yes. As a registrant -- as a US
 17 registrant it was, or SEC Registrant it was
 18 subject to that.

19 MR SULLIVAN: Objection, legal
 20 conclusion.

21 BY MR DODGE:

22 Q. Do you have an understanding of
 23 what Section 10A of the Sarbanes-Oxley Act was?

24 A. Yes, I have an understanding of
 25 that. The 10A provisions provide some rules, or I

Page 31

1 Dr Adam Farkas
 2 would say -- I would rather say descriptive rules
 3 as to what the auditor is supposed to do if
 4 irregularities or suspected illegal acts are
 5 discovered in the process of the audit. And this
 6 section of the law is describing the appropriate
 7 behaviour the auditor has to follow in that case.

8 To go into a little bit more detail
 9 basically it obliges the auditor to first of all
 10 understand and seek for the background of these
 11 potential irregularities or illegal acts, ensure
 12 that remedial action is taken.

13 If it is not taken report it to the
 14 securities regulator. And in case of this
 15 cannot -- if remedial action -- if the
 16 irregularities cannot be dispelled and remedial
 17 action is not taken one potential step of the
 18 auditor is to resign from its function and refuse
 19 the completion of the audit work. So it is a very
 20 serious consequence of -- in case irregularities
 21 are discovered.

22 Q. Are you familiar with Section 404
 23 of the Sarbanes-Oxley Act?

24 A. Not particularly with that section.

25 Q. That is fine. We will move on.

Page 32

1 Dr Adam Farkas

2 Now, I am going to ask you to turn
 3 your attention to January of 2006, particularly in
 4 the middle of January 2006, and ask whether there
 5 came a time in January 2006 when you became aware
 6 of an issue at Magyar Telekom involving
 7 Montenegro?

8 A. Yes.

9 MR SULLIVAN: Objection, Montenegro
 10 is no longer part of this case. Go ahead.

11 Relevance.

12 A. The circumstances of that period
 13 were that I had just taken up a new job in a full
 14 time capacity on 9th January of that year with
 15 Allianz, with this international group, and
 16 literally a week in my job I received a phone call
 17 from Klaus Hartmann, then chief financial official
 18 of Magyar Telekom who, of course, was a major
 19 counterparty to the audit committee in this
 20 function. And he asked me for an urgent meeting
 21 about a serious matter. This happened on the 16th
 22 January. We agreed to meet in person 2 days later
 23 at the premises of Magyar Telekom.

24 Q. This is January 18th?

25 A. January 18th, and we had a meeting

Page 33

1 Dr Adam Farkas

2 in the morning in his offices which was -- to my
 3 best recollection it was attended by three of us;
 4 it was Nick Kos, the independent auditor,
 5 Klaus Hartmann, the CFO, and myself as the
 6 chairman of the audit committee.

7 In that meeting Nick Kos raised the
 8 issue of a very recent discovery of some
 9 suspicious contacts in the course of the regular
 10 audit work in the Montenegrin subsidiary of Magyar
 11 Telekom, and he mentioned Chapter 10A or Section
 12 10A, and mentioned that for the auditor to proceed
 13 an independent investigation of -- into the
 14 circumstances of these two contracts were
 15 necessary because otherwise he could not proceed
 16 with the audit.

17 The relevance of the problem was
 18 that these two suspicious contracts, or these two,
 19 let us say, contracts with unknown purpose, were
 20 approved by senior people within the Magyar
 21 Telekom Group and, therefore, the auditor
 22 indicated that this fact is putting into question
 23 whether the auditor, PwC, can rely on senior
 24 representation made by senior Magyar Telekom
 25 executives to underpin the audit process.

Page 34

1 Dr Adam Farkas
 2 Q. Did Mr Kos identify who the senior
 3 management people were?
 4 A. Yes. At that point in time he
 5 identified Mr Tamas Morvai, who was part of the
 6 corporate bodies of the subsidiary approving one
 7 of these contracts. And Andras Balogh, who was
 8 present at the meeting when one of these contracts
 9 were approved. And, of course, they were very
 10 senior managers of Magyar Telekom, and that raised
 11 the point of how much PwC could rely on -- of
 12 senior management representation from Magyar
 13 Telekom.
 14 Q. Mr Kos mentioned two contracts is
 15 that right?
 16 A. Yes.
 17 Q. Do you remember the names by which
 18 those contracts -- or the names of the
 19 counterparties?
 20 A. Yes. One of them was called
 21 Rawleigy, R-A-W-L-E-I-G-Y. And the other one was
 22 Sigma, which is S-Y-G-M-A. I think. There were
 23 several spellings.
 24 Q. Let me make a suggestion on the
 25 spelling, is it possible that it was

Page 35

1 Dr Adam Farkas
 2 R-A-W-L-E-I-G-H?
 3 A. Yes.
 4 Q. And the other one, is it possible
 5 the spelling was S-I-G-M-A?
 6 A. Yes, either Y or I, yes.
 7 Q. So you described the meeting on
 8 January 18th?
 9 A. Yes.
 10 Q. What happened after that?
 11 A. In that meeting what was explained
 12 was that the expectation -- well, Mr Kos faced the
 13 issue of resigning, or the other option was, of
 14 course, that would have led -- a resignation would
 15 have led to an immediate reporting to the
 16 Securities and Exchange Commission and the
 17 Hungarian authorities, and it would have led to an
 18 immediate trigger of an official investigation
 19 into these matters by the authorities.
 20 The other alternative was to set up
 21 a robust and independent internal investigation
 22 into the question whether these contracts are
 23 legitimate and they serve legitimate business
 24 purposes which at that time was questioned. And,
 25 therefore, whether the senior Magyar Telekom

Page 36

1 Dr Adam Farkas
 2 representatives or managers can be cleared or
 3 ringfenced from any potential wrongdoing, and,
 4 therefore, the representation can be relied upon.
 5 This was -- I think these two options were on the
 6 table. We agreed that it is in the best interest
 7 of the company, it is in the best interest of the
 8 shareholders that we try to conduct such an
 9 independent investigation and we initiate an
 10 investigation within the shortest timeframe
 11 possible.
 12 I have to also say that this was
 13 something that was unprecedented in Hungary at the
 14 time because, as I mentioned, it was not -- there
 15 were not too many companies exposed to these
 16 regulations at the time. So for me personally it
 17 was something I had to get into gradually. But
 18 the objective was very clear, and Nick Kos made it
 19 very clear that he wanted the audit committee to
 20 oversee this independent investigation because the
 21 audit committee and its chair, myself, was
 22 completely independent of the executive
 23 management.
 24 And given that the concern was
 25 related to the senior management of the company

Page 37

1 Dr Adam Farkas
 2 the audit committee was the only body to
 3 independently supervise such an investigation.
 4 Also in that meeting we already
 5 started talking about who could be the law firm
 6 which could do this independent investigation. It
 7 was very clear that we needed independent counsel
 8 to do this.
 9 And we did an initial search of
 10 potential law firms in that room between the three
 11 of us based on a few criteria. And the criteria
 12 we tried to set was, it has to be ideally -- or
 13 optimally it has to be a law firm with strong US
 14 expertise of securities law, and, potentially,
 15 criminal law. It -- in ideal circumstances it has
 16 to have a Budapest office to be able to support
 17 the investigation from a Hungarian law perspective
 18 and also logically and operationally. It has
 19 to be ideally a firm which is not conflicted, so
 20 not a firm that is doing work or has done work
 21 recently with Magyar Telekom on behalf of or
 22 representing Magyar Telekom.
 23 And that was, of course, a
 24 difficult hurdle to pass because Magyar Telekom
 25 was a major local company doing a lot of

Page 38

1 Dr Adam Farkas
 2 international activities using extensively
 3 international law firms in that period. So we had
 4 to look at potential conflicts in that respect and
 5 we, sort of, narrowed down the scope and
 6 identified White & Case as one of these potential
 7 firms.

8 And at that time Klaus Hartmann --
 9 we agreed with Klaus Hartmann that he would go to
 10 legal and double-check the conflict situation, or
 11 if the legal department of Magyar Telekom could
 12 identify another law firm that would fit the bill.
 13 So that was the discussion at that time.

14 Q. And did you then come to make
 15 contact with White & Case?

16 A. Yes. We contacted White & Case, I
 17 think, either on that day or on the 19th January,
 18 the next day. And I remember that 19th January we
 19 already had a meeting with White & Case with an
 20 initial discussion on how such an investigation
 21 would be set up and how the firm would be engaged
 22 and what the scope of that investigation would be.

23 Again, this happened in a very,
 24 very short period of time and events were
 25 unfolding very, very quickly and, again, I did

Page 39

1 Dr Adam Farkas
 2 this as a part-time job so I have to do my
 3 full-time job as well as trying to set this up.
 4 So this was a very busy few days agreeing on
 5 engaging White & Case.

6 By 20th January, we were discussing
 7 a formal engagement letter with White & Case
 8 lawyers. By then the Washington office of White &
 9 Case was also brought into the picture in full.
 10 So that was the process of engagement.

11 Q. And was there an engagement letter
 12 signed with White & Case?

13 A. Yes, there was an engagement letter
 14 signed, I think, on the 20th if I remember
 15 correctly, or around the 20th.

16 Q. And who signed that?

17 A. The engagement letter on behalf of
 18 the company was signed by Klaus Hartmann because
 19 he was a board member and he could accept
 20 contracts on behalf of the company.

21 I as the audit committee chairman
 22 according to Hungarian corporate governance laws
 23 could not sign contracts on behalf of the company
 24 at that time. So I countersigned the engagement
 25 letter as the chairman of the audit committee to

Page 40

1 Dr Adam Farkas
 2 signal that it was -- the investigation was under
 3 the auspices of the audit committee. But
 4 commercially speaking the signature was
 5 Klaus Hartmann's who was a board member.

6 Q. And did any attorneys from White &
 7 Case come out to Budapest around that time?

8 A. As far as I can remember the first
 9 time White & Case attorneys from the Washington
 10 office came was the 23rd January, a few days after
 11 lawyers came to Budapest. Of course, the Budapest
 12 office was not in itself familiar with an
 13 independent -- the requirements of an independent
 14 investigation under the US standards or US laws so
 15 we had to bring in lawyers with the appropriate
 16 expertise.

17 Q. And who from White & Case came out
 18 to Budapest around the 23rd?

19 A. I think it was Bill Currier who
 20 came first.

21 Q. Were there any document retention
 22 requests prepared around that time?

23 A. Well, immediately after that
 24 engagement the first step which we took was to
 25 prepare a protocol for the first investigative

Page 41

1 Dr Adam Farkas
 2 steps and to make considerations for two things;
 3 one was an immediate need to retain documents that
 4 could be relevant to the investigation, and the
 5 second, which was raised by the White & Case
 6 Budapest office, legitimately, was to deal with
 7 the data protection laws of Hungary that were
 8 very, let us say, strict, or very precise on
 9 protecting so-called personal data stored on
 10 computers and in documents.

11 So basically we started, or White &
 12 Case lawyers started working on a document that
 13 requested immediately the employees, and we
 14 defined a circle of employees, a scope of
 15 employees who appeared to be in connection with
 16 the -- with these two contracts to ask them to
 17 retain all documents, either electronic or paper
 18 or in any other means that were available to them
 19 for the purposes of the investigation.

20 And also at the same time work was
 21 done to prepare a so-called consent form or waiver
 22 form that would ask all these employees to
 23 sign-off on the release for the purposes of the
 24 investigation of the personal data contained in
 25 these documents. That includes their names on an

Page 58

1 Dr Adam Farkas
 2 we conducted it all the way from the first day
 3 until I left my role in the audit committee it was
 4 an investigation by the company, supported by the
 5 company, in the interests of the company to either
 6 dispel the concerns relating to these contracts,
 7 or find justification for the concerns expressed
 8 by the auditor.

9 Deleting anything, or let us say
 10 destroying evidence that might be relevant to this
 11 investigation is just -- by common sense is
 12 something that potentially undermines this notion
 13 of an independent company initiated investigation
 14 because it simply makes it more difficult to
 15 arrive to a conclusion in the course of the
 16 investigation.

17 So hence I would say that, of
 18 course, destruction of evidence or deletion of
 19 potential evidence of documents would have been
 20 significant and it would have been, in a sense,
 21 negatively significant for the purposes of the
 22 investigation.

23 Q. So now also at the same time
 24 period, 13th February 2006, did you have any
 25 knowledge or awareness of any possibility that

Page 59

1 Dr Adam Farkas
 2 data might have been deleted from Mr Morvai's
 3 computer?

4 MS LANE: Objection.
 5 MR KOENIG: Objection.

6 A. No.

7 BY MR DODGE:

8 Q. And the same question that I asked
 9 about Mr Balogh; had such facts been made known to
 10 you on February 13th, 2006, would you have found
 11 that significant?

12 MS LANE: Objection.
 13 MR KOENIG: Objection.

14 A. I would have found it significant
 15 for the same reasons.

16 BY MR DODGE:

17 Q. At this time did it ever happen --
 18 did Mr Balogh ever come to you and identify
 19 particularly sensitive data that he had and asked
 20 for your assistance in maintaining the
 21 confidentiality of that data in connection with
 22 the investigation?

23 MS LANE: Objection.

24 A. No. I met Andras Balogh in one of
 25 the meetings we organised in mid-February with the

Page 60

1 Dr Adam Farkas
 2 explicit purpose to provide information to
 3 employees concerned about the purpose of the
 4 investigation, the protocol of the investigation,
 5 the need for their co-operation and so on and so
 6 forth and with respect to any questions they might
 7 have had. In the course of that meeting I met
 8 personally Andras Balogh, but not in a one-on-one
 9 setting, but in a meeting room similar to this one
 10 in the company's offices.

11 MR DODGE: I am handing you a
 12 document now --

13 THE COURT REPORTER: Would it be
 14 possible to have a comfort break?

15 MR DODGE: Yes.

16 (Off the record at 10.43 am)

17 (On the record at 10.55 am)

18 BY MR DODGE:

19 Q. Dr Farkas, before the break I
 20 handed you Exhibit 202 which is a four-page
 21 document, at the top of the first page it says
 22 minutes of the meeting that commenced at 3:00 pm
 23 on February 14, 2006, can you identify
 24 Exhibit 202?

25 (Exhibit 202 marked for identification)

Page 61

1 Dr Adam Farkas

2 A. Yes.

3 Q. And what is it?

4 A. It is summary minutes of a meeting
 5 which was not an official body or constituent of
 6 the company. It was an ad hoc meeting organised
 7 by myself and White & Case lawyers with the
 8 explicit purpose of providing an opportunity for
 9 the employees who were first identified, let us
 10 say, in the first round and requested to retain
 11 documents and provide consent, to address their
 12 concerns, their questions, give them accurate and
 13 genuine information about the investigation.

14 This meeting was organised in
 15 Budapest, in the offices of Magyar Telekom. But
 16 given that individuals were involved in the scope
 17 from Montenegro we allowed the senior management
 18 of the Montenegrin company to dial in and attend
 19 the meeting.

20 Q. So you attended the meeting, is
 21 that right?

22 A. I attended the meeting, yes. I am
 23 on it.

24 Q. Who else attended the meeting in
 25 person?